

February 21, 2016

Mr. Robert deV. Frierson  
Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, N.W.  
Washington, DC 20551

Re: Comment letter on Proposed Guidelines for Evaluating Joint Account Requests  
Docket No. OP-1557

Dear Mr. deV. Frierson:

The American Bankers Association (ABA)<sup>1</sup> appreciates the opportunity to provide comments on the Proposed Guidelines for Evaluating Joint Account Requests<sup>2</sup> published in the Federal Register on December 22, 2017. The proposal would provide a framework for parties to follow when applying to the Federal Reserve Banks to open joint accounts. Joint accounts can be used to facilitate faster settlement for payment transactions among the joint account holders. In anticipation of receiving multiple requests for joint accounts, the Board of Governors (the Board) has proposed these guidelines to make the process consistent and transparent. As the industry moves towards real time payments it is vital that all avenues to achieve this goal are evaluated consistently with respect to efficiency and security for all parties involved in payments transactions.

The ABA favors initiatives to improve the payments system by making it faster and safer. Using joint accounts is one way that financial institutions can meet this goal. ABA supports the Board's efforts to make the joint account opening procedure uniform for all applicants while safeguarding the integrity of the payment system and its participants.

Federal Reserve Banks offer individual accounts to financial institutions in the normal course of business. In special circumstances, the Federal Reserve Banks have opened joint accounts where multiple financial institutions are users of the same payment system. The joint account allows the payment system operator to settle transactions between the parties immediately without having to transfer funds outside of the shared account. Any joint account holders in these accounts are required to be financial institutions eligible to open individual accounts at the Federal Reserve.

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<sup>1</sup> The American Bankers Association is the voice of the nation's \$16 trillion banking industry, which is composed of small, regional, and large banks that together employ more than 2 million people, safeguard \$12 trillion in deposits and extend more than \$8 trillion in loans.

<sup>2</sup> <https://www.federalregister.gov/documents/2016/12/22/2016-30860/proposed-guidelines-for-evaluating-joint-account-requests-request-for-comments>

Currently, there are only two joint accounts held at the Federal Reserve Banks. Both facilitate private sector payment systems managed by The Clearing House (TCH). The Board recognizes that there is a heightened increase in industry activity surrounding developing faster payments solutions for consumer and commercial customers and that joint accounts could be one way of settling transactions faster. In anticipation of receiving multiple requests to open joint accounts for the purposes of furthering faster payments systems, the Board is proposing to standardize the process to request and open these accounts.

The Board proposes that joint account holders' participation would be subject to the following:

- Only depository institutions eligible to open individual accounts at Federal Reserve Banks would be eligible to be a joint account holder;
- The joint account holders would authorize one "agent" for the account and the Federal Reserve Banks would be authorized to act on that agent's instructions on behalf of the joint account holders;
- The joint account holders would indemnify the Federal Reserve Banks for losses related to operating the account; and
- The joint account holders would rely on the payment system operator or agent to provide clearing services and manage positions within the joint account.

The Board proposes to review any request for a joint account presented on a case-by-case basis under using this framework to evaluate the application:

1. Each joint account holder must meet all applicable legal requirements to have a Federal Reserve Account, and the Reserve Bank will not have any obligation to any non-account holder with respect to funds in the account.
2. The private-sector arrangement must demonstrate that it has a sound legal and operational basis for its payment system.
3. The design and rules of a private-sector arrangement must be consistent with the Federal Reserve's policy objectives to promote a safe, efficient and accessible payment system for U.S. dollar transactions and be consistent with the intended use of the arrangement.
4. Provision of a joint account must not create undue credit, settlement, or other risks to the Reserve Banks.
5. Provision of a joint account must not create undue risk to the overall payment system.
6. Provision of a joint account must not adversely affect monetary policy.

The ABA supports the use of these six points to make the application process for joint accounts consistent and to provide protections to the financial institutions participating in any new payment system.

It is very important that the integrity of the system be protected at all costs. U.S. payment systems are safe and secure and reliable right now. That must not change. This safety is the product of each participating financial institution being subject to strict consumer protection and data security regulation, continual oversight by examiners, and posting sufficient capital reserves. This safety would

be threatened if entities that aren't subject to such requirements were allowed to become counterparties in the payments system.

Put simply, banks are held to higher standards in order to protect the interests of their customers. Any entity that is not subject to the same standards and oversight would present an unacceptable risk as a payment system participant. ABA strongly supports the first part of the framework that requires each participant to be an account eligible financial institution. That is the foundation on which the entire proposal rests.

The Board requests comment on what information, if any, should be made public regarding the establishment of a joint account.

ABA recommends that the establishment of a joint account for the purposes of facilitating a faster payments solution be published by the Board after it has been approved. Applications that are not successful should not be made public. Successful applications should not be harmed by making the account widely known.

The Board requests comment on the possible effects on the attractiveness of joint accounts if the Reserve Banks reserved the right to set limits on balances in joint accounts, to require information on projected balances or volatility of balances, or to restrict further or close joint accounts to protect against any negative monetary policy implications.

ABA agrees that precautions must be taken to mitigate any volatility in these accounts that could negatively affect monetary policy. In the interest of full disclosure, these precautions must be transparent to financial institutions prior to entering into the joint account.

ABA recommends that prior to financial institutions opening a joint account, the Board clearly state the thresholds for volatility that it determines to be triggers for it to take any action to mitigate volatility or close the account. The Board should disclose how its analysis of the potential risk has led to the specific triggers or thresholds that would determine when action will be taken.

ABA recommends that the Board make the funds held on behalf of individual financial institutions in a joint account count towards the bank's reserve balance. This would make holding funds in this account more attractive.

It is ironic to note that these triggers and thresholds would only be met if the payment system supported by the joint account was widely successful and adopted and used by a large population.

The Board requests comment on whether the Board or Reserve Banks should consider "other steps or actions to facilitate private-sector arrangements in light of market participants' efforts to develop faster retail payment solutions."

ABA recommends that the Federal Reserve Faster Payments Task Force maintain its usefulness by continuing to foster collaboration amongst a wide range of payments stakeholders across a broader

range of issues. ABA recommends that the Task Force model of cooperation be retained to facilitate the goal of achieving a ubiquitous, transparent, faster and safe payments infrastructure. The Federal Reserve Faster Payments Task Force has served the industry well as a catalyst, bringing diverse groups together, developing the faster payments Effectiveness Criteria, and reviewing submissions of faster payments solutions for future publication.

Thank you for considering the comments and recommendations set forth in this letter. If you have any questions or need additional information, please do not hesitate to contact the undersigned at [skenneally@aba.com](mailto:skenneally@aba.com) or by telephone at (202) 663-5147.

Sincerely,

Stephen K. Kenneally

A handwritten signature in dark ink, appearing to read "Stephen K. Kenneally". The signature is fluid and cursive, with the first name "Stephen" and last name "Kenneally" clearly distinguishable.

Vice President, Center for Payments and Cybersecurity  
American Bankers Association  
+001 (202) 663-5147  
[skenneal@aba.com](mailto:skenneal@aba.com)